

Message Text

PAGE 01 STATE 015648
ORIGIN EA-09

INFO OCT-01 ISO-00 EUR-12 /022 R

6611
DRAFTED BY: EA/J:DFSMITHCEH
APPROVED BY: EA/J:DFLAMBERTSON
EUR/RPE:DLAMB
-----242343Z 029004 /61

R 242241Z JAN 77
FM SECSTATE WASHDC
TO AMEMBASSY TOKYO

C O N F I D E N T I A L STATE 015648

STADIS//////////

FOLLOWING REPEAT OECD PARIS 02175 ACTION SECSTATE 22 JAN 77.

QUOTE C O N F I D E N T I A L OECD PARIS 02175

STADIS

FOR: EUR HARTMAN AND EUR/RPE ALBRECHT BY 9 AM JAN 22

E.O. 11652: GDS
TAGS: OECD, ECON
SUBJECT: VAN LENNEP'S APPROACH TO THE ISSUES OF VICE
PRESIDENT MONDALE'S VISIT; MISSION SUGGESTION
FOR ENHANCING INTERNATIONAL ECONOMIC COOPERA-
TION

REF: OECD PARIS 00981

1. FOR HARTMAN: REFTEL COVERS MOST OF THE SUBJECTS
AND ISSUES THAT ARE LIKELY TO BE DISCUSSED BETWEEN
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VAN LENNEP AND VICE PRESIDENT NEXT FRIDAY. WE PLAN ON
HAVING A FURTHER DISCUSSION WITH HIM EARLY NEXT WEEK
AND WILL PASS ON TO YOU ANY FURTHER SPECIFIC INDICATIONS
OF HIS THINKING. IN THE MEANTIME, THIS MESSAGE IS
TRANSMITTED AS OF POSSIBLE USEFULNESS TO YOU IN YOUR
DISCUSSIONS WITH THE VICE PRESIDENT OR OTHER MEMBERS OF
HIS PARTY. PARAGRAPHS 2 AND 3 SET FORTH THE CENTRAL
MESSAGE THAT WE BELIEVE VAN LENNEP WILL TRY TO GET ACROSS
BASED ON OUR RECENT CONVERSATIONS WITH HIM. THE
REMAINDER OF THE MESSAGE TAKES OFF FROM VAN LENNEP'S
IDEAS AND IS OUR ATTEMPT TO BE RESPONSIVE TO YOUR

REQUEST AS TRANSMITTED BY TONY ALBRECHT FOR SOME NEW THINKING ON THE ISSUES. WE SEND IT WITH THE THOUGHT THAT YOU MIGHT WISH TO TRY IT OUT ON OTHER MEMBERS OF THE PARTY WHEN THE INTERNAL DISCUSSIONS TURN TO HOW TO IMPROVE INTERNATIONAL ECONOMIC COOPERATION.

2. THE BUILDING BLOCKS FOR INTERNATIONAL ECONOMIC COOPERATION WHICH HAVE BEEN DEVELOPED WITHIN OECD AS WELL AS THE FURTHER ACTION WE BELIEVE REQUIRED TO ENHANCE THEIR EFFECTIVENESS ARE LAID OUT IN REFTEL. WE EXPECT OECD SEC GEN VAN LENNEP WILL, IN ADDITION TO DISCUSSING THE ECONOMIC OUTLOOK AND POLICY REQUIREMENTS, SEEK THE NEW ADMINISTRATION'S ACTIVE SUPPORT AND LEADERSHIP IN EACH OF THE MAIN SUBSTANTIVE AREAS DISCUSSED IN THAT MESSAGE AND PROBE THE VICE PRESIDENT FOR ANY SIGNIFICANT SHIFTS OF POLICY IN THE NEW ADMINISTRATION.

3. WE KNOW VAN LENNEP HAS BEEN CONCERNED BY WHAT HE PERCEIVES TO BE A TENDENCY OF THE BIG COUNTRIES TO DOWNPLAY MULTILATERAL INSTITUTIONAL ECONOMIC COOPERATION IN FAVOR OF AD HOC BILATERAL, AND EVEN MULTILATERAL NON-INSTITUTIONAL, MODES WHICH HE FEELS LEAD TO ILLUSORY RESULTS AND PATCHWORK SOLUTIONS AT BEST. HE SEES GOOD ECONOMIC POLICY AS SO INTIMATELY LINKED TO ORDERLY INSTITUTIONALIZED COOPERATION THAT WE EXPECT CONFIDENTIAL

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HIM TO STRESS TO THE VICE PRESIDENT THAT THE US SHOULD SEEK TO USE THE SUMMIT TO REINFORCE THE PROCESS OF COOPERATION WITHIN EXISTING INSTITUTIONS. HE CAN ALSO BE EXPECTED TO PROPOSE THAT THE SENIOR POLICY BODIES OF THE OECD SHOULD BE UTILIZED FULLY TO PREPARE FOR THE SUMMIT, NOT IN ANY FORMAL WAY, BUT BY HAVING THE SHULTZES, COOPERS, AND SOLOMONS OF THE INDUSTRIALIZED COUNTRIES TAKING UP THE ESSENTIAL ISSUES IN A STRUCTURED WAY. HE SEES THE OECD MINISTERIAL MEETING TO BE ATTENDED BY SECRETARIES VANCE AND BLUMENTHAL AS A CULMINATING POINT IN THIS PREPARATORY PROCESS, AGAIN WITH NO FORMAL LINK TO THE SUMMIT. THE GRIST FOR THIS PROCESS WOULD BE THE MAJOR OECD POLICY AREAS, ESSENTIALLY THOSE DESCRIBED IN REFTEL.

4. ALONG THESE LINES OUR OWN THINKING ABOUT IMPROVING INTERNATIONAL ECONOMIC COOPERATION IS THAT THE PRESENT INTERNATIONAL ECONOMIC SITUATION, THE ADVENT OF THE CARTER ADMINISTRATION, AND THE FORTHCOMING SUMMIT COMBINE TO PROVIDE AN OCCASION TO LAUNCH IMPROVEMENTS IN THE SYSTEM OF INTERNATIONAL ECONOMIC COOPERATION. THE FURTHER DEVELOPMENT OF THE SEVERAL OECD INSTITUTIONALIZED POLICIES RECOMMENDED IN REFTEL WOULD PROBABLY CONTRIBUTE TO THE EFFECTIVENESS OF THE EXISTING ARRANGEMENTS. BASED ON OUR EXPERIENCE WITH AN INSTITUTION

THAT COVERS THE GAMUT OF ECONOMIC SUBJECTS, WE BELIEVE THE SYSTEM ITSELF COULD BE CONSIDERABLY ENHANCED IF THE VARIOUS BUILDING BLOCKS COULD BE LINKED TOGETHER MORE EXPLICITLY IN A CONCEPTUALLY AS WELL AS OPERATIONALLY COHERENT STRUCTURE. SUCCESSIVE ECONOMIC SUMMITS OF THE MAJOR INDUSTRIALIZED DEMOCRACIES (AS WELL AS IN THE EUROPEAN COMMUNITY) HAVE SOUGHT SUCH A SYNTHESIZED APPROACH WHICH HAS NOT YET BEEN ACHIEVED SATISFACTORILY AT LOWER AND, THEREFORE, MORE COMPARTMENTALIZED LEVELS.

5. A UNIFYING OR INTEGRATING CONCEPT OF COOPERATION
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WOULD LINK CONSULTATION AND COOPERATION ON DOMESTIC ECONOMIC PROBLEMS, WITH FINANCIAL AND MONETARY COOPERATION IN THE ADJUSTMENT PROCESS, AND WITH A RENEWED AND MORE PERMANENT COMMITMENT AGAINST TRADE RESTRICTIONS BUTTRESSED BY SECTORAL CONSULTATIONS AND ADEQUATE FINANCIAL RESOURCES AS WELL AS CONTINUING CONSULTATION ON INVESTMENT FLOWS. THE BASIS FOR SUCH A UNIFYING CONCEPT COULD BE THE OECD COMMON STRATEGY FOR SUSTAINABLE GROWTH. DOMESTIC ECONOMIC POLICIES WHICH ARE SOUND AND COHERENT FROM THE VIEWPOINT OF THE SYSTEM AS A WHOLE SHOULD BE THE LINCHPIN OF OVERALL ECONOMIC COOPERATION. CONSEQUENTLY, THE PROCESS OF ECONOMIC POLICY COORDINATION SHOULD BE GIVEN SHARPER FOCUS AND THE CENTRALITY IT DESERVES IN OVERALL ECONOMIC COOPERATION.

6. THE OECD COMMON STRATEGY FOR SUSTAINABLE GROWTH (SEE PARA 7A REFTL) SHOULD BE DEVELOPED FURTHER AND CONTINUALLY UPDATED. IT COULD BE DISAGGREGATED TO THE EXTENT THAT THERE SHOULD BE A CONSENSUS ON THE POLICY PATH TO BE FOLLOWED BY EACH OF THE MAJOR ECONOMIC ACTORS IN A DETERMINED PERIOD AND ON THE RESULTS THAT THE COMBINATION OF THESE PATHS WILL HAVE IN TERMS OF THE OVERALL GROWTH AND ECONOMIC PERFORMANCE OF THE OECD COUNTRIES AS A GROUP. UNTIL NOW THE PRACTICE HAS BEEN THAT GOVERNMENTS HAVE EXCHANGED VIEWS ON EACH OTHER'S POLICIES, WHICH HAS MEANT ESSENTIALLY THAT EACH COUNTRY SET OUT ITS OWN SITUATION AND INTENTIONS IN THE FRAMEWORK OF AN OVERALL ASSESSMENT BY THE SECRETARIAT, A PROCESS WHICH HAS BEEN USEFUL IN ITSELF. WE COULD NOW SEEK TO DEVELOP A CONSENSUS OF WHAT EACH COUNTRY SHOULD BE DOING AND SOME PREDICTABILITY THAT EACH OF THE MAIN ACTORS WILL BE APPLYING POLICIES AIMED AT STICKING TO THE POLICY PATH. BOTH THE INDIVIDUAL NATIONAL AND THE AGGREGATE OECD PATHS WOULD BE DEFINED IN TERMS OF MAJOR POLICIES, BUT SOME QUANTITATIVE EXPRESSION OF THE
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OBJECTIVE WILL BE NEEDED TO INTEGRATE AND ASSESS CONSISTENCY AND PERFORMANCE. WE ARE AWARE OF THE PITFALLS OF MAKING THIS SOUND LIKE INTERNATIONAL INDICATIVE PLANNING; HOWEVER, IF WE CAN MOVE IN THIS DIRECTION IN A PUBLICLY ACKNOWLEDGED WAY, WE WILL BE IN A BETTER POSITION TO COME TO GRIPS WITH THE INTERLINKAGES IN BOTH THEORY AND PRACTICE AMONG THE MAIN ISSUES IN DOMESTIC MACROECONOMIC MANAGEMENT, INTERNATIONAL FINANCE, EXCHANGE RATES, TRADE AND INVESTMENT. FOR ANALYTICAL AND PRACTICAL (AS WELL AS BUREAUCRATIC) PURPOSES, THESE POLICIES WILL HAVE TO DEVELOP IN SEPARATE COMPARTMENTS, BUT THE FEEDBACK RELATIONSHIPS AMONG THEM WOULD BE TAKEN INTO ACCOUNT IN TERMS OF THE CONSENSUS ON OVERALL GOALS. THUS,

--THE ADJUSTMENT PROCESS DISCUSSION WOULD TAKE PLACE IN THE CONTEXT OF A BETTER APPRECIATION OF THE INTERRELATIONSHIP BETWEEN OVERALL MACROECONOMIC POLICY OBJECTIVES AND PERFORMANCE ON THE ONE HAND, AND THE BALANCE OF PAYMENTS ON THE OTHER HAND. THUS ADJUSTMENT NEEDS WOULD BE CONTINUALLY FACTORED INTO THE PROCESS OF DISAGGREGATING THE ECONOMIC STRATEGY; WHILE THE CONSENSUS ON NATIONAL MACROECONOMIC POLICIES WOULD HELP GUIDE THE CONTINUING WORK ON ADJUSTING OF THE INEVITABLE IMBALANCES IN COUNTRIES' EXTERNAL ACCOUNTS.

--A NEW REVISED AND PERMANENT OECD TRADE PLEDGE WOULD BE LINKED TO THE RESPONSIBILITIES OF BOTH DEFICIT AND SURPLUS COUNTRIES TO FOLLOW APPROPRIATE ECONOMIC POLICIES; I.E., THOSE SET OUT IN THE COMMON STRATEGY. IT WOULD BE BUTTRESSED BY MULTILATERAL CONSULTATIONS INCLUDING THOSE ON SECTORAL PROBLEMS E.G., STEEL, WHERE SECTORAL ACTIONS COULD LEAD TO WIDESPREAD
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TRADE REACTIONS AND BY,

--AUGMENTED OFFICIAL FINANCIAL RESOURCES (FINANCIAL SUPPORT FUND) WHICH IN THIS INTEGRATED CONTEXT COULD FACILITATE, INDEED WOULD PROVIDE THE NECESSARY UNDERPINNING TO THE COMMON STRATEGY FOR SUSTAINABLE NON-INFLATIONARY GROWTH WITHOUT TRADE RESTRICTIONS IN THE CURRENT CIRCUMSTANCES OF WIDELY DIVERGING NATIONAL PERFORMANCES.

7. BY WORKING TOWARDS A CONSENSUS ON THE PART OF THE MAJOR ECONOMIC ACTORS ON THEIR RESPECTIVE RESPONSIBILITIES IN THESE INTERDEPENDENT POLICY AREAS, WE WILL

PROVIDE A BASIS FOR FOSTERING CONSTRUCTIVE MUTUAL CRITICISM TO REMIND GOVERNMENTS OF THEIR RESPONSIBILITIES. COUNTRIES IN SUCH CIRCUMSTANCES WILL FIND IT MORE DIFFICULT TO ESCAPE DISCIPLINE IN ONE AREA, E.G., THE TRADE PLEDGE, WITH THE EXCUSE THAT OTHERS ARE NOT ACTING APPROPRIATELY WITH RESPECT TO DOMESTIC EXPANSION, EXCHANGE RATE POLICY OR THE LIKE. FURTHERMORE, ANY COUNTRY CONTEMPLATING ACTION IN THE TRADE FIELD COULD EXPECT CONSIDERABLY SHARPER SCRUTINIES OF ALTERNATIVE POLICY OPTIONS. WHILE SUCH LINKAGE IMPLIES SOME RISK IN GIVING COUNTRIES A SPECIFIC CRITERIA FOR RESORTING TO TRADE MEASURES, WE BELIEVE THAT THE GREATER DISCIPLINES IMPLIED BY THE OVERALL COHERENCE OF THE SYSTEM COUNTER BALANCES THIS POSSIBILITY.

8. OBVIOUSLY THE PROCESS WE ENVISAGE IMPLIES A LEVEL OF CONSULTATION AND COORDINATION WHICH WILL BE SEEN BY MANY AS POSSIBLY INFRINGING ON NATIONAL SOVEREIGNTY OR A DEGREE OF INTERNATIONAL INTERFERENCE WITH THE DOMESTIC POLITICAL PROCESS WHICH IS UNACCEPTABLE. THE EUROPEAN COMMUNITY ITSELF HAS BEEN GROPING TOWARDS THIS KIND OF COORDINATION PROCESS WITH SINGULAR LACK OF CONFIDENTIAL

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SUCCESS.

9. IN RESPONSE WE WOULD POINT OUT THAT COUNTRIES SUCH AS THE UK, AND ITALY AND PERHAPS SOON FRANCE HAVE TO PUT UP WITH MORE INTERNATIONAL INTERFERENCE WHEN THE TIME COMES FOR BAILOUT, AND THAT THE MAIN UTILITY OF THE SUMMIT ITSELF IS SEEN BY SOME OF THE PARTICIPANTS IN TERMS OF INDUCING THE FRG TO EXPAND. THUS INTERNATIONAL CONSULTATION ON AND CRITICISM OF NATIONAL POLICIES ALREADY EXIST. THE OBJECTIVE OF OUR PROPOSAL IS TO MOVE OUT OF THE REALM OF CRISES, AND INTO A MORE COHERENT INSTITUTIONAL MEDIUM TERM FRAMEWORK.

10. AS FOR THE ARGUMENT BASED ON THE COMMUNITY ANALOGY, EXPERIENCE SEEMS TO INDICATE THAT ECONOMIC POLICY COOPERATION REQUIRES ACTIVE US AND TO A LESSER EXTENT JAPANESE PARTICIPATION AND CERTAINLY US LEADERSHIP. WE WOULD OF COURSE HAVE TO EXPECT THAT WE, LIKE OTHERS, WOULD BE SUBJECT TO MORE FOCUSSED CRITICISM OF OUR DOMESTIC ECONOMIC POLICIES. THIS IS THE COUNTERPART TO THE ADVANTAGE THAT OUR LEADERSHIP IN SUCH A PROCESS IS LIKELY TO HAVE SIGNIFICANT EFFECT ON THOSE EUROPEAN COUNTRIES WHICH REQUIRE AND ARE MORE AMENABLE TO INTERNATIONAL PRESSURE. FURTHERMORE, A SUCCESSFUL PROCESS IN THE TRILATERAL CONTEXT OF THE OECD IS LIKELY TO PROVIDE FOR THE GENERAL CLIMATE OF

STABILITY WHICH THE EUROPEANS REQUIRE TO MAKE HARMONIZATION MORE EFFECTIVE AMONG THEMSELVES. AND THE DIVERGENCE BETWEEN WEAK AND STRONG WITHIN EUROPE CONTINUES TO BE AN IMPORTANT SOURCE OF INSTABILITY IN THE WORLD SYSTEM.

11. WE HAVE IN THIS MESSAGE NOT ADDRESSED THE ORGANIZATIONAL OR PROCEDURAL ASPECT OF ACHIEVING THIS GOAL. THE PROBLEMS HERE ARE IMPORTANT. BUT IF THERE IS CLEAR
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AGREEMENT ON WHAT WE WANT TO ACHIEVE, THE PROCEDURAL ASPECT WHILE DIFFICULT SHOULD BE MANAGEABLE.
TURNER UNQUOTE VANCE

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 22-Sep-1999 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DIPLOMATIC DISCUSSIONS
Control Number: n/a
Copy: SINGLE
Sent Date: 24-Jan-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE015648
Document Source: ADS
Document Unique ID: 00
Drafter: EA/J:DFSMITHCEH
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Expiration:
Film Number: D770025-0973
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770193/baaevcw.tel
Line Count: 290
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: a39784de-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: OECD PARIS 00981
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 14-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3681743
Secure: OPEN
Status: NATIVE
Subject: VAN LENNEP'S APPROACH TO THE ISSUES OF VICE PRESIDENT MONDALE'S VISIT; MISSION SUGGESTION FOR
ENHANCING INTERNATIONAL ECONOMIC COOPERATION
TAGS: ECON, OVIP, ACOM, US, OECD, (MONDALE, WALTER), (VAN LENNEP)
To: TOKYO
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a39784de-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009